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Ministerial segment: ministerial round tables

Summaries of multi-stakeholder round tables

Note by the Secretariat

Addendum

Ministerial round table B.4, on the theme "Coherence for development"

Wednesday, 20 March 2002 (afternoon)

Summary by the Co-Chairs

Owen A. Arthur, Prime Minister and Minister of Finance (Barbados)

Jean Lemierre, President of the European Bank for Reconstruction and Development

1. The round table produced a rich debate on many aspects and dimensions of coherence and its relevance to development. There was a widespread view that the draft Monterrey Consensus provides a sound framework for a coherent approach to development and the achievement of the millennium development goals.

General aspects

2. Participants welcomed the impetus provided by the draft Monterrey Consensus and emphasized that more coherent policies and efforts are needed at all levels. Coherence requires a long-term approach and must be built on a set of sound domestic policies, democracy, the rule of law, the enforceability of contracts and anti-corruption measures. A supportive international environment is seen as crucial. Multiple conditionalities, protectionism, domestic subsidies and inadequate coordination in the development policies of international institutions are hindering efforts to create a global economic system that supports the achievement of the internationally agreed development goals.

3. Ministers and other stakeholders stressed that coherence implies partnership at all levels. The coordination of efforts to rapidly implement the goals set out in the draft Monterrey Consensus is the duty of each and every party. There is a need for

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clarity in the responsibilities of all stakeholders to coordinate efforts and to improve broad-based policy dialogue. Transparency and accountability must be the underlying principles in that endeavour.

4. Coherence must be people-centred and aim at a higher quality of sustainable livelihoods. It was stressed that true coherence relies on the citizen, who must be integrated through an appropriate institutional framework. Everyone must be able to participate in order to support a well-functioning political process. Coherence is a coming together of all parties and in all sectors — in an early and broad manner.

5. Coherence and diversity work together. Participants stressed that development strategies must recognize different policy environments. Pluralism and heterodox approaches should be encouraged, but all forces must be brought together, which requires an environment that is conducive to better and more transparent coordination of efforts.

6. Resources are an important aspect of coherence. The recent European Union and United States initiatives to increase spending on official development assistance (ODA) are welcome as first promising steps in the right direction. The effectiveness of aid has increased in the past few years, but more remains to be done to enhance the absorptive capacity of developing countries, including through private/public partnerships. Every country is responsible for its own development, and it is crucial for development strategies to be owned by individual developing countries. However, development requires much more than aid. Coherence implies joint efforts to address domestic resource mobilization, trade issues, debt problems and the reform of the international financial architecture.

Main issues discussed

7. Many participants stressed the need to address the inconsistencies in the overall approach to development. A coherent approach would imply the use of a variety of instruments and policies that do not conflict with each other. A fundamental problem in that respect lies in the incoherence between the development assistance and trade policies of developed countries. Protectionism, especially in the agricultural and agro-industrial sectors, creates distortions in international trade, and by penalizing competitive producers in developing countries that have comparative advantages in those sectors represents an obstacle to growth. The agreements reached at Doha, if fully implemented, represented an opportunity to advance towards a more development-oriented series of trade negotiations. However, as one minister noted, capacity constraints could be an obstacle preventing many developing countries from reaping the benefits that more accessible markets make possible through optimizing the scale of production.

8. The combination of liberalized and increasingly volatile capital flows, particularly short-term flows, with an international financial system that is designed for a world with capital controls and far less integrated financial markets, is another source of incoherence that needs to be addressed. One reflection of that problem is the repeated occurrence of international financial crises, which are often preceded by large capital inflows and revel underlying vulnerabilities and shortcomings at both the national and international levels. Coherence in the financial sense requires measures in developing and developed countries, as well as at the international level. Such measures should include international financial regulations for

institutional investors, highly leveraged financial institutions and off-shore financial centres.

9. Several ministers referred to the crisis in Argentina as a dramatic example of the urgent need to address incoherence at the international level. Some ministers expressed their solidarity with the Argentine people and its Government, and emphasized the need to support the Government in its pursuance of economic reforms amid extremely difficult circumstances.

10. Conditionality attached to development aid could be a source of incoherence and needs to be addressed, according to several participants. In many cases, multiple and conflicting conditionalities can impose a heavy burden on recipient countries, and their absorptive capacity needs to be taken into account in that respect. Improved coordination among donors is essential. It was also stressed that conditionality needs to be applied in such a way that the people of developing countries are not penalized for the failure of their leaders to meet basic performance criteria for aid. It was also felt that effective development assistance requires donors and recipients to share the same goals, as well as a full commitment by Governments of recipient countries to those goals, particularly to poverty eradication. Ministers also addressed the need to avoid confusion between the goals of ODA and those of private economic activity, for example by avoiding the use of ODA to subsidize private business and to mitigate its inherent risk.

11. Ministers had a broad discussion on the coherence of policies at different levels and with different approaches. One key issue was the coherence and coordination of the macroeconomic policies of the main advanced countries, which was seen as an essential ingredient of global macroeconomic stability and sustained, effective development policies, which would benefit all, particularly the developing countries. It was also viewed as a key aspect of the establishment of an enabling international environment, without which the development efforts of developing countries cannot succeed.

12. Another aspect of policy coherence concerns development policies in the developing countries, particularly between macroeconomic and sectoral policies. For example, the subsidization of certain sectors can exacerbate fiscal burdens and lead to distortions in economic activity. One key aspect of policy coherence raised by one minister was the importance of public awareness of and support for economic policy and reform options. Even if policies are technically sound, they cannot succeed without the support of the people.

Proposals

13. The following proposals were made:

- An international taxation organization should be created to tackle issues of international coordination of tax policies, with a possible extension to issues concerning foreign direct investment (FDI);
- A committee should be established to harmonize the evaluation of procedures by the international financial institutions;
- The United Nations should study the positive and negative aspects of FDI and how to maximize its benefits for developing countries while limiting its negative impacts;

- Enhancing the civil service's effectiveness should become one of the priorities of official development assistance, inter alia, because it is needed for the development of the private sector;
- An index of sustainability of enterprises of developing countries, along the lines of the one that is already in place for developed countries, should be developed. That initiative would help to improve the triple social-environmental-economic bottom line at the national level;
- The international high-level economic dialogue now carried out under the Group of Eight Major Industrialized Countries grouping should be opened to include other groupings and the widening of the agenda.